HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK
Halifax CMA

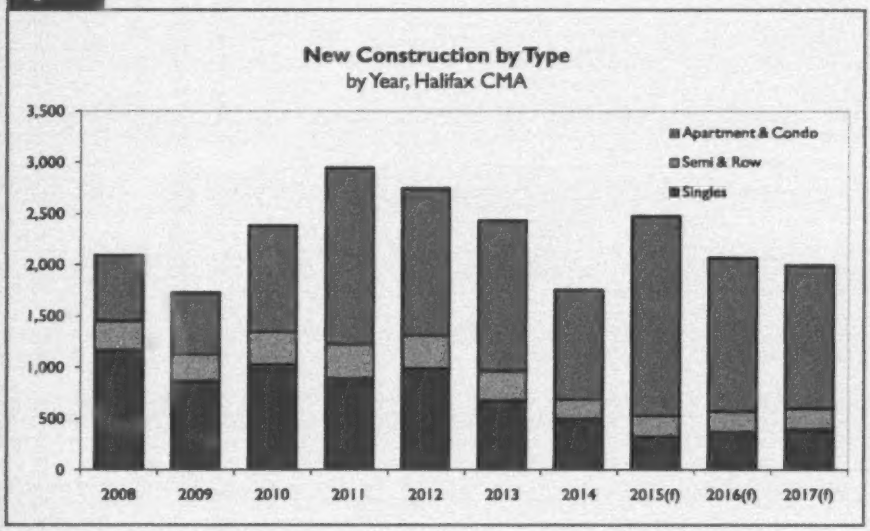
CANADA MORTGAGE AND HOUSING CORPORATION

Date Released: Fall 2015

Highlights[1]

- Total starts to remain over 2,000 units over the forecast period
- Vacancy rate and rent to edge up
- MLS® sales to remain stable yet below 10-year historical average
- Multiples starts will take lion's share of residential construction in 2016 and 2017

Figure 1



Source and Forecast: CMHC

[1] The forecasts included in this document are based on information available as of September 28, 2015.

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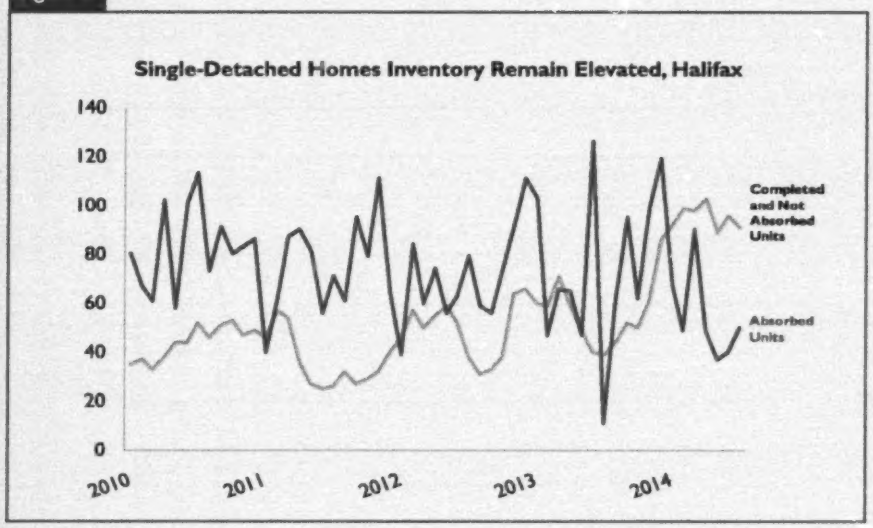
Figure 2



Source: CMHC

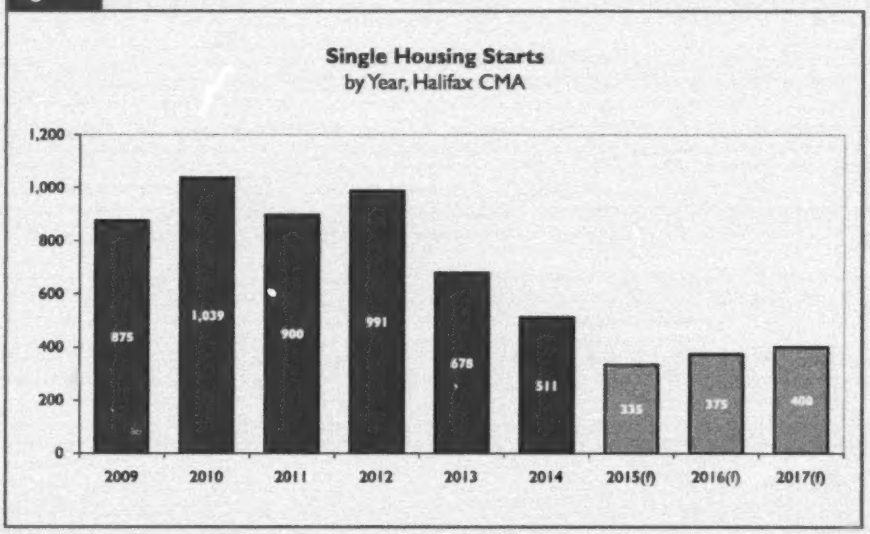
Residential Construction in Halifax to Remain Above 2,000 units

Residential construction activity in Halifax is expected to remain above 2,000 starts in 2016 and 2017. At the end of the third quarter of 2015, more than 2,295 units broke ground, which stands in sharp contrast with the 1,757 starts recorded in all of 2014. While economic and demographic fundamentals show some strength this year, developers of purpose-built rental apartments are taking full advantage of low interest rates and relatively stable vacancy rates even in a growing apartment universe. Rental apartment construction is expected to remain strong over the forecast period. Single-detached starts, on the other hand, are expected to move in the opposite direction. The singles market began to decline in 2013 with 678 starts before dropping further in 2014 to 511 starts. This weaker trend will persist until at least 2017, where it is expected that singles starts will remain under 400 units per year over the next three years.

Housing starts are forecast to total 2,485 units in 2015, 2,075 units in 2016 and remain stable at 2,000 units in 2017. Over the forecast period, apartment starts will make up, on average, 80 per cent of all construction activity. It is expected that rental apartment construction will further be concentrated in core areas such as the Peninsula and Dartmouth, as was observed in 2015. Development opportunities in those areas will also spearhead condominium construction over the forecast period.

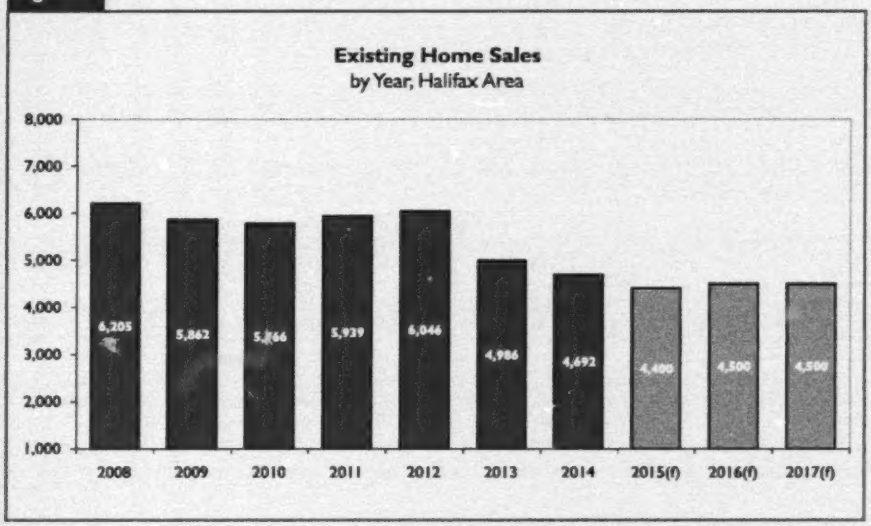
The decline in single-detached starts persisted this year, following two weak years. Singles were 30 per cent below the ten-year average of 991 starts and are expected to remain weak over the forecast horizon. As a result, the average number of singles under construction receded to a monthly average of 366 units during the past 24 months compared to 619 units during the previous 24 month period. The slowdown in activity was attributed to the rising inventory of unabsorbed (i.e., unsold) units, peaking at 103 units in April 2014, before gradually sliding below 80 units. While this represents a 30 per cent reduction in inventory, Halifax had not seen 60 unabsorbed units since the early 2000s when single-detached starts were averaging well above 1,100 units per year. This might lead one to believe that prices would also experience some downward pressure.

Figure 3



Source and Forecast: CMHC

Figure 4



Source: Nova Scotia Association of REALTORS® & CREA
MLS® is a registered trademark of the Canadian Real Estate Association
Forecast: CMHC

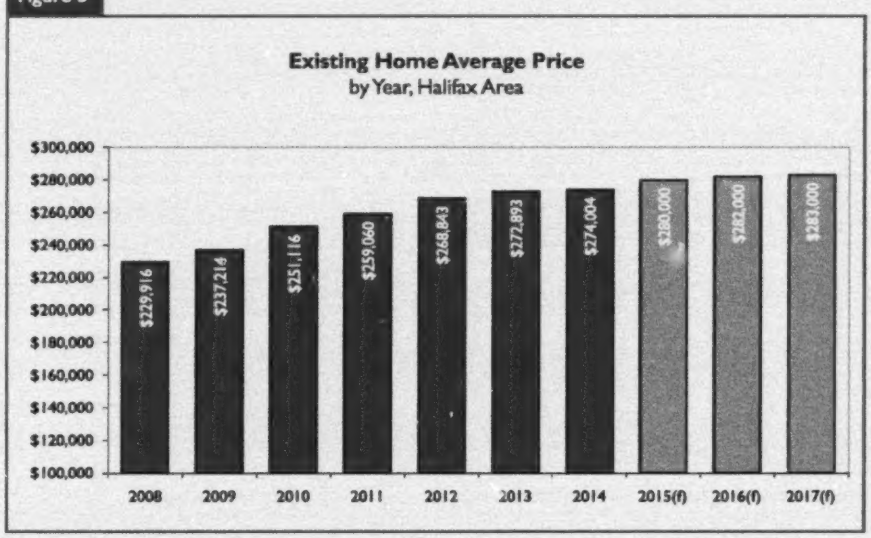
However, both the median and average price of an absorbed single-detached increased in 2015, indicating a general increase in activity related to higher priced homes. Year-to-date, the median price was $399,000 whereas the average price was $446,526, representing in both cases an increase of over five per cent from the previous year. The number of single-detached units absorbed was low at 263, but with 36.5 per cent of all new home sales in price ranges above $450,000, the preference for luxurious homes is clear. Historically, the most expensive price ranges are less conducive to spec homes, as buyers of these properties prefer to provide input into the design and finishes. With fewer sales in the $400,000-$450,000 price range, activity becomes polarized in below average and above average market segments.

The price gap between new and existing homes further contributed to the weakness of the singles market. The gap has grown by 25 per cent over the last five years whereas in the previous five years, the price gap grew by nine per cent. The employment and population growth recorded in 2015 will support housing, but it is expected that the price gap will steer prospective buyers away from the new single-detached homes. Instead, prospective buyers may prefer to delay purchasing or to opt for a resale home. As a result, expect singles to reach 335 units in 2015.

Single-detached starts are forecast to record 375 units in 2016 and 400 units in 2017. Prices will continue to grow in the most expensive segments of the market, creating upward pressure on median prices as well.

More than 1,650 apartment units were started as of August 2015. The majority of apartment starts continue to be offered as rental units, but so far this year more than 378 condominium units were started, making it the strongest year since 2005. The construction of apartment units in the core of the city proved to be strong, as over 1,350 apartments broke ground in Halifax City and Dartmouth City. Precisely, 1,119 units broke ground on the Peninsula, 201 units in Dartmouth City, 208 in Bedford-Hammonds Plains and 121

Figure 5



Source: Nova Scotia Association of REALTORS® & CREA
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Forecast: CMHC

Figure 6

Source and Forecast: CMHC

in Sackville. Increased development on the Peninsula is slated to continue in 2016 and 2017, as a number of large projects are expected to break ground, contrasting previous years where construction was more focused on the periphery.

The rise in apartment starts also coincided with a sharp increase in the number of units under construction. As of August 2015, more than 2,896 apartment units were under construction including 616 condominium units and 2,280 rental apartments. The demand keeping the rental market construction above its recent average continues to be supported by an increasing segment of the aging population choosing to downsize. As a result, expect 1,500 apartment units to break ground in 2016 and 1,400 in 2017. This level of construction will keep the distribution of all construction activity heavily weighted toward apartment starts at around 80 per cent.

MLS® Prices to Rise while Sales Remain Stable

For a third consecutive year, the resale market remained weak by recent historical standards. The decline to 4,692 sales in 2014 continued into 2015 in all submarkets. At the end of August 2015, MLS® sales totalled 3,209, a decrease of 169 sales from the previous year. The trend is expected to continue into the fourth quarter of 2015, as employment and population gains have failed to lift sales volume. As a result, expect 4,400 sales in the Halifax CMA in 2015.

In 2016 and 2017, the resale market will show marginal gains to 4,500 units each year. Strong demand for rental apartments from an aging population seeking alternatives to homeownership creates asymmetries in the market where prospective sellers continue to outnumber potential buyers. As a result, the transaction volume will remain flat over the forecast period.

While weak sales volume coincided with rising active listings in previous years, this year the number of homes for sale has decreased on a year-over-year basis during the busy May to August time period. Lower active listings can increase market dynamics by stimulating price growth and sales volume. However, the number of active listings recorded throughout 2015 remains approximately five to eight per cent higher than previous years. Lower active listings keep the market more favourable to buyers.

Price growth of 2.3 percent has outpaced the targeted rate of inflation so far this year. The average resale home sold for $284,256 at the end of August compared to $277,818 at the same period last year. Relative strength in Halifax City contributed nearly single-handedly to generate price growth at the Halifax CMA level, as prices grew six per cent and sales increased 1.7 per cent this year. Nearly all other submarkets recorded price changes between minus one and plus one percent this year, with Halifax County East recording price losses of 6.9 per cent. Expect price growth this year of 2.2 per cent at $280,000. In light of weak sales volume forecasted for both 2016 and 2017 and an employment forecast that remains moderate, expect the average price of an existing home to grow to $282,000 in 2016 and $283,000 in 2017.

Apartment Units to Maintain Pace over Forecast Period

The construction of apartment units is expected to record its strongest year since the early 1970s when apartment construction ranged between 1,800 and 2,500 units annually. The construction of 378 condominium units in Halifax City

this year added some diversity of tenure options, as in recent years purpose-built rental units captured nearly 100 per cent of all apartment starts. The significant change in today's household composition has spurred demand from aging households who are electing to downsize to smaller, maintenance free footprints. This is the opposite of what the baby boomer generation did after they left the family nest to join the labour market back in the 1970s. The magnitude of this change has been felt for the past five years. As evidence, the rental universe grew by 10 per cent over the past four years, now standing at an estimated total of 44,423 units in fall 2014. The intensity of this trend remained continuous throughout this period, as the number of units under construction rarely dipped below the 2,000 level. To provide some perspective, 1979 marked the last year where apartment units under construction reached 2,000.

Expect the construction activity of apartments to remain strong over the forecast period, albeit at lower levels than the 1,950 starts expected in 2015. In 2016 and 2017, expect this number to recede to 1,500 and 1,400 units. The forecast is expected to remain above the five-year average of 1,348 units.

The recent concentration of apartment construction in the peripheral areas of Halifax CMA also left untapped development opportunities on the Peninsula and Halifax City. The rental universe on the Peninsula has only grown by approximately 700 units over the past five years, with over 500 units breaking ground in the South End. This year alone, 1,120 units broke ground across the Peninsula with activity in the North End, the downtown area, and the South End. The trend to focus on redevelopment opportunities in already built up areas will continue over the forecast period, where it is expected that between 60 and 70 per cent of all activity will take place in Halifax City.

Demand for rental units will remain strong over the forecast period, yet the supply of new units in 2017 will offset demand. Consequently, the vacancy rate in the Halifax CMA is expected to inch upward to 4.1 per cent in 2015 and 4.3 per cent in 2016. The construction activity taking place today will impact the vacancy rate in approximately two years and as such, expect the vacancy rate to rise to 4.6 per cent in 2017.

The average rent is expected to stabilize over the forecast period in line with current expectations for the consumer price index. Expect the average rent for a two-bedroom unit to reach $1,030 in 2015 and $1,055 in 2016. This rising trend will extend into 2017 where average rents are expected to reach $1,080. The rental market will remain a competitive housing option for those wishing to downsize, as the variety of locations and amenities offered rival other substitutes such as duplexes or townhouses.

Mortgage rates are expected to begin to rise moderately from current levels late in 2016

Mortgage rates are expected to continue trending close to current levels, supporting housing demand. However, consistent with the view of Canadian economic forecasters, CMHC expects interest rates to begin to rise moderately from current levels late in 2016, contributing to a modest slowdown in housing markets.

According to CMHC's base case scenario for 2015, the one-year mortgage rate is expected to be in the 2.60 to 3.30 per cent range, while the five-year rate is forecast to be within the 4.10 to 5.20 per cent range. For 2016, the one-year mortgage rate is expected to be in the 3.00 to 3.80 per cent range, while the five-year rate is forecast to be within the 4.70 to 6.00 per cent range. For 2017, the one-year mortgage rate is expected to be in the 3.90 to 4.80 per cent range, while the five-year rate is forecast to be within the 5.10 to 6.50 per cent range.

Trends at a Glance

Key Factors and their Effects on Housing Starts	
Mortgage Rates	Mortgage rates will begin to rise gradually late in 2016, contributing to moderation in housing demand.
Employment	Employment levels will increase marginally in 2015, increasing the demand for all housing options.
Income	Real average weekly earnings have increased in the first three quarters of 2015, which will provide some support for housing demand going forward.
Net Migration	Net migration supports the demand for rental housing options. International migration is positive and is the main source of population growth.
Natural Population Increase	Natural population growth is moderate. In the long run, an aging population is expected to impact household formation and demand for new construction.
Resale Market	The demand for resale homes is expected to remain stable but below its ten-year average.
Vacancy Rates	Positive international migration and an aging population will maintain demand for rental units. The scale of rental construction in Halifax is likely to exert upward pressure on the vacancy rate.

Forecast Risks

This outlook is subject to some risk including:

- A prolonged period of lower oil prices could reduce the number of people moving out of the province to other parts of Canada, boosting the population and growing housing demand.
- The rapid expansion of the rental universe due to a low interest rate and weak dollar could create upward pressure on the vacancy rate over the next two years.
- A stronger US dollar and growing US economy could boost tourism- and export-related industries across Nova Scotia, stimulating growth in tourism, retail, and manufacturing-based employment.

Forecast Summary Halifax CMA Fall 2015									
	2012	2013	2014	2015(F)	% chg	2016(F)	% chg	2017(F)	% chg
New Home Market									
Starts:									
Single-Detached	991	678	511	335	-34.4	375	11.9	400	6.7
Multiples	1,763	1,761	1,246	2,150	72.6	1,700	-20.9	1,600	-5.9
Semi-Detached	190	120	70	100	42.9	100	0.0	100	0.0
Row/Townhouse	136	167	112	100	-10.7	100	0.0	100	0.0
Apartments	1,437	1,474	1,064	1,950	83.3	1,500	-23.1	1,400	-6.7
Starts - Total	2,754	2,439	1,757	2,485	41.4	2,075	-16.5	2,000	-3.6
Average Price ($):									
Single-Detached	426,885	396,929	410,786	420,000	2.2	440,000	4.8	450,000	2.3
Median Price ($):									
Single-Detached	379,900	364,450	375,450	390,000	3.9	420,000	7.7	435,000	3.6
New Housing Price Index (% chg.)	2.2	2.6	0.3	0.2	-	0.0	-	0.0	-
Resale Market									
MLS® Sales	6,046	4,986	4,692	4,400	-6.2	4,500	2.3	4,500	0.0
MLS® New Listings	10,160	10,336	10,450	10,550	1.0	10,000	-5.2	9,800	-2.0
MLS® Average Price ($)	268,843	272,893	274,004	280,000	2.6	282,000	0.7	283,000	0.4
Rental Market									
October Vacancy Rate (%)	3.0	3.2	3.8	4.1	0.3	4.3	0.2	4.7	0.4
Two-bedroom Average Rent (October) ($)	954	976	1,005	1,030	2.5	1,055	2.4	1,080	2.4
Economic Overview									
Mortgage Rate (1 year) (%)	3.17	3.08	3.14	2.60 to 3.30	-	3.00 to 3.80	-	3.90 to 4.80	-
Mortgage Rate (5 year) (%)	5.27	5.24	4.88	4.10 to 5.20	-	4.70 to 6.00	-	5.10 to 6.50	-
Annual Employment Level	221,700	222,300	223,300	224,500	0.5	226,000	0.7	227,000	0.4
Employment Growth (%)	1.1	0.3	0.4	0.5	-	0.7	-	0.4	-
Unemployment rate (%)	6.2	6.5	6.1	6.6	-	6.6	-	6.4	-
Net Migration	3,040	2,018	3,332	3,000	-10.0	3,000	0.0	3,000	0.0

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Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), Nova Scotia Association of REALTORS®, Statistics Canada (CANSIM)

NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

** Percent change > 200%

DEFINITIONS AND METHODOLOGY

New Home Market

Historical home starts numbers are collected through CMHC's monthly **Starts and Completions Survey**. Building permits are used to determine construction sites and visits confirm construction stages. A **start** is defined as the beginning of construction on a building, usually when the concrete has been poured for the whole of the structure's footing, or an equivalent stage where a basement will not be part of the structure.

Single-Detached Start:
The start of a building containing only one dwelling unit, which is completely separated on all sides from any other dwelling or structure.

Semi-Detached Start:
The start of each of the dwellings in a building containing two dwellings located side-by-side, adjoining no other structure and separated by a common or party wall extending from ground to roof.

Row (or Townhouse) Start:
Refers to the commencement of construction on a dwelling unit in a row of three or more attached dwellings separated by a common or party wall extending from ground to roof.

Apartment and other Starts:
Refers to the commencement of construction on all dwellings other than those described above, including structures commonly known as stacked townhouses, duplexes, triplexes, double duplexes and row duplexes.

Average and Median Single Detached Home Prices:
Are estimated using CMHC's **Market Absorption Survey**, which collects home prices at absorption and measures the rate at which units are sold or rented after they are completed. Dwellings are enumerated each month after a structure is completed until full absorption occurs. The term "**absorbed**" means that a housing unit is no longer on the market as it has been sold or rented.

New Home Price Indexes:
Changes in the New Home Price Indexes are estimated using annual averages of Statistics Canada's monthly values for New Housing Price Indexes (NHPI).

Resale Market

Historical resale market data in the summary tables of the Housing Market Outlook Reports refers to residential transactions through the Multiple Listings Services (MLS®) as reported by The Canadian Real Estate Association (CREA). In Quebec, this data is obtained by the Centris® listing system via the Quebec Federation of Real Estate Boards.

MLS® (Centris® in the province of Quebec) Sales:
Refers to the total number of sales made through the Multiple Listings Services in a particular year.

MLS® (Centris® in the province of Quebec) Average Price:
Refers to the average annual price of residential transactions through the Multiple Listings Services.

Rental Market

Rental Market vacancy rates and two bedroom rents information is from Canada Mortgage and Housing Corporation's (CMHC's) October Rental Market Survey (RMS). Conducted on a sample basis in all urban areas with populations of 10,000 and more, the RMS targets privately initiated structures with at least three rental units, which. have been on the market for at least three months. The survey obtains information from owners, managers, or building superintendents through a combination of telephone interviews and site visits.

Vacancy Rate:
The vacancy rate refers to the average vacancy rate of all apartment bedroom types. A unit is considered vacant if, at the time of the survey, it is physically unoccupied and available for immediate rental.

Two Bedroom Rent:
The rent refers to the average of the actual amount tenants pay for two bedroom apartment units. No adjustments are made for the inclusion or exclusion of amenities and services such as heat, hydro, parking, and hot water.

Economic Overview

Labour Force variables include the Annual Employment Level, Employment Growth, Unemployment Rate. Source: Statistics Canada's Labour Force Survey.

Net Migration:
Sum of net interprovincial (between provinces), net intra-provincial (within provinces), net international (immigration less emigration), returning Canadians and temporary (non-permanent) residents as provided to the CANSIM database by Statistics Canada's Demography Division. Sources of inter-provincial and intra-provincial migration data include a comparison of addresses from individual income tax returns for two consecutive years from Canada Revenue Agency (CRA) taxation records. The migration estimates are modelled, with the tax file results weighted to represent the whole population.

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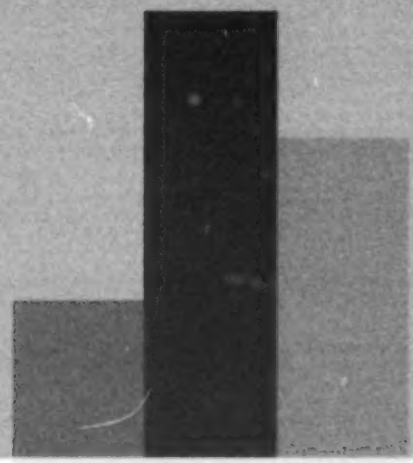

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